

ACTUARIAL

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SECTION

2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PUBLIC EMPLOYEES' RETIREMENT FUND

Actuary's Certification Letter



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July 23, 2008

Indiana Public Employees' Retirement Fund
Board of Trustees
143 West Market Street, Suite 500
Indianapolis, IN 46204

Dear Members of the Board:

Certification of Actuarial Valuations

The actuarial data presented in this report describes the current actuarial condition of the defined benefit pension plans ("Plans") administered by the Indiana Public Employees' Retirement Fund ("PERF"). Valuations are prepared annually as of July 1 for all Plans except the 1977 Police Officers' and Firefighters' Pension and Disability Fund which is annually as of January 1.

Under PERF statutes, employer contribution rates are certified annually for each Plan by the Board of Trustees. These rates are determined actuarially, based on the Board's funding policy. Contribution rates for the PERF Plan as determined by a given actuarial valuation become effective eighteen months after the valuation date (12 months for state employees). For example, the rates determined by the July 1, 2007 actuarial valuation will be used by the Board when certifying the employer contribution rates for the year beginning January 1, 2009 (or for the year beginning July 1, 2008 for state employees). If new legislation is enacted between the valuation date and the date the contribution rates become effective, the Board may adjust the recommended rates before certifying them, in order to reflect this new legislation. Such adjustments are based on information supplied by the actuary.

Funding Objectives and Funding Policy

In setting contribution rates, the Board's principal objectives have been:

- to set rates so that the unfunded actuarial accrued liability ("UAAL") will be amortized over a fixed period.
- to set rates so that they remain relatively level over time.

To accomplish this, the Board's funding policy requires that the employer contribution rate be equal to the sum of the employer normal cost rate (which pays the current year's cost) and an amortization rate which results in the amortization of the UAAL in equal installments. The Board has adopted smoothing rules to the political subdivisions of PERF (except for State Employees) in the determination of the employer contribution rates to reduce the variability of these rates. Beginning with 2007, the smoothing rules were extended to the determination of the employer contribution rates for PERF State employees and for the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters Pension and Disability fund, and the Prosecuting Attorneys Retirement Fund.

No membership growth is anticipated in setting the contribution rate. This is consistent with GASB #25, which prohibits anticipating membership growth in determining the minimum Annual Required Contribution ("ARC"). Under this policy, the objectives of amortizing the UAAL and maintaining relatively level contribution rates over time are achieved.

Progress Toward Realization of Financing Objectives

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of

Actuary's Certification Letter

a Plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. The combined funded ratio for all Plans has increased from the preceding year due primarily to favorable actuarial experience gains.

Benefit Provisions

The benefit provisions reflected in this report are those which were in effect on each Plan's valuation date. The Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Plan reflect benefit improvements from the 2006 valuation.

Assumptions and Methods

Actuarial assumptions and methods used in the valuation are set by the Board, based upon the recommendations of the actuary. The actuary reviews actual plan experience before making these recommendations. The last such review of actuarial assumptions was carried out in connection with the July 1, 2006 actuarial valuation for the PERF Plan and the January 1, 2003 actuarial valuation for the 1977 Municipal Police and Fire pension plan. The PERF retirement rates were increased by 30% for the 2007 valuation to reflect the higher than expected recent actual retirement experience.

Data

Member data for retired, active and inactive members was supplied as of each Plan's valuation date by Indiana Office of Technology, a data vendor for PERF. We did not audit this data, but we did apply a number of tests to the data, and we concluded that it was reasonable and consistent with the prior year's data. Asset information for each Plan was supplied by PERF and Indiana Office of Technology.

Certification

We certify that the information presented herein is accurate and fairly portrays the actuarial position of each Plan administered by PERF as of each Plan's 2007 valuation date.

We prepared the exhibits in the "Actuarial Section" which include Summary of Actuarial Assumptions and Methods, the Reconciliation of Changes in Unfunded Actuarial Accrued Liabilities, the Solvency Tests, the Schedules of Active Member Valuation Data, and the Schedules of Retirants and Beneficiaries. In addition, we prepared the Schedules of Funding Progress and Schedules of Employer Contributions in the "Financial Section."

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of Indiana state law and, where applicable, the Internal Revenue Code, Employee Retirement Income Security Act (ERISA), and the Statements of the Governmental Accounting Standards Board. We are each independent Enrolled Actuaries and Members of the American Academy of Actuaries and experienced in performing valuations for large public retirement systems.

If you have any questions or require additional information, please don't hesitate to contact us.



Douglas Todd
A.S.A., M.A.A.A., E.A.
Senior Actuary



Richard E. Lenar
F.S.A., M.A.A.A., E.A.
Chief Actuary

PUBLIC EMPLOYEES' RETIREMENT FUND

Summary of Actuarial Assumptions and Methods as of July 1, 2007

- Note 1:** Prior to July 1, 2003, the COLA assumption was assumed to be 2 percent for the remaining lifetime of the benefit recipient. Effective July 1, 2003, the time period for the actuarial assumption for COLA was changed from the remaining lifetime of the benefit recipient to five years from the valuation date. This change was applied to the Indiana Public Employees' Retirement Fund (PERF Plan), the State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan, and the Legislators' Defined Benefit Plan.
- Note 2:** Effective July 1, 2004, the COLA assumption was assumed to be 0.5 percent for the remaining lifetime of the benefit recipient. Effective July 1, 2005, the COLA assumption was assumed to be 1 percent for the remaining lifetime of the benefit recipient. Effective July 1, 2006, the COLA assumption was assumed to be 1.5 percent for the remaining lifetime of the benefit recipient. These changes were applied to the PERF Plan, the State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan, and the Legislators' Defined Benefit Plan. The PERF Plan plans to maintain the COLA assumption at 1.5 percent for the remaining lifetime of the benefit recipient.
- Note 3:** All systems are using the 1994 U.S. UP-94 (sex distinct) for post-retirement.
- Note 4:** Actuarial funding method for all systems is Entry Age Normal Cost, except for the Accrued Benefit (Unit Credit) funding method that is used for the Legislators' Defined Benefit Plan. Actuarial experience gains and losses are amortized on a level dollar basis for all systems. The amortization period is closed for all systems except the 1977 Police Officers' and Firefighters' Pension and Disability Fund which has an open amortization period.
- Note 5:** Actuarial asset valuation method phases in the difference between expected investment return and actual investment return over a 4-year period for all systems except the PERF Plan where valuation assets are equal to 75 percent of expected actuarial value plus 25 percent of market value.

Public Employees' Retirement Fund

July 1, 2007 Actuarial Valuation

Investment Return	Post-Retirement COLA	Salary Scale		Retirement Rates		Disability Rates			Termination Rates		
7.25%	1.5%	Based on PERF Exp. 2000-2005 Sample Rates:		Based on PERF Exp. 2000-2005 ¹ Sample Rates:		Based on PERF Exp. 2000-2005 Sample Rates:			Based on PERF Exp. 2000-2005 Ultimate Sample Rates:		
		Age	Rate	Age	Rate	Age	Male Rate	Female Rate	Age	Male Rate	Female Rate
		25	4%	60	13%	45	0.11%	0.09%	25	2%	2%
		35	4	62	29	50	0.20	0.16	30	2	2
		45	4	65	43	55	0.35	0.28	35	2	2
		60	4	70	39	60	0.62	0.49	45	2	2

¹Rates revised effective July 1, 2007.

Judges' Retirement System

July 1, 2007 Actuarial Valuation

Investment Return	Post-Retirement COLA	Salary Scale	Retirement Rates		Disability Rates		Termination Rates	
7.25%	4% for 1977 System None for 1985 System	4%	Based on Experience 2000-2005 Sample Rates:		1964 OASDI Sample Rates:		Based on Experience 2000-2005 Sample Rates:	
			Age	Male and Female	Age	Male and Female	Age	Male and Female
			62	25%	40	0.22%	30	4%
			64	10	50	0.61	40	4
			65	25	60	1.63	50	4
			75	100	64	2.32	55	4

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Summary of Actuarial Assumptions and Methods as of July 1, 2007

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

July 1, 2007 Actuarial Valuation

Investment Return	Post-Retirement COLA	Salary Scale	Retirement Rates		Disability Rates		Termination Rates	
7.25%	1.5%	4.5%	Based on Experience of Current Retirees Sample Rates:		150% of 1964 OASDI Sample Rates:		Sarason T-1 Sample Rates:	
			Age	Male and Female	Age	Rate	Age	Male and Female
			50	3%	40	0.33%	30	3.7%
			53	3	50	0.91	40	1.1
			56	6	60	2.44	50	0.0
			60	100	64	3.48	55	0.0

1977 Police Officers' and Firefighters' Pension and Disability Fund

January 1, 2007 Actuarial Valuation

Investment Return	Post-Retirement COLA	Salary Scale	Retirement Rates		Disability Rates		Termination Rates	
7.25%	2.75%	4%	Based on Actuarial Exp. Study 1998-2002 Sample Rates:		150% of 1964 OASDI Sample Rates:		Sarason T-1 Sample Rates:	
			Age	Male and Female	Age	Male and Female	Age	Male and Female
			50-51	10%	40	0.33%	30	3.7%
			52-64	20	50	0.91	40	1.1
			65-69	50	60	2.44	50	0.0
			70+	100	64	3.48	55	0.0

Prosecuting Attorneys' Retirement Fund

July 1, 2007 Actuarial Valuation

Investment Return	Post-Retirement COLA	Salary Scale	Retirement Rates		Disability Rates			Termination Rates
7.25%	None	4%	Later of (a) age 65, or (b) 8 years service		Based on PERF Exp. 2000-2005 Sample Rates:			10% per year
					Age	Male Rate	Female Rate	
					45	0.11%	0.09%	
					50	0.20	0.16	
					55	0.35	0.28	
					60	0.62	0.49	

PUBLIC EMPLOYEES' RETIREMENT FUND

Summary of Actuarial Assumptions and Methods as of July 1, 2007

Legislators' Defined Benefit Plan

July 1, 2007 Actuarial Valuation

Investment Return	Post-Retirement COLA	Salary Scale	Retirement Rates		Disability Rates		Termination Rates	
7.25%	1.5%	3%	Based on Experience Sample Rates:		75% of 1964 OASDI Sample Rates:		Sarason T-2 Sample Rates:	
			Age	Male and Female	Age	Male and Female	Age	Male and Female
			55	10%	40	0.17%	30	5.1%
			58-61	2	50	0.45	40	3.5
			62-64	5	60	1.22	50	0.4
			65	50	64	1.74	55	0.0

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Reconciliation of Changes in Unfunded Actuarial Accrued Liabilities

(dollars in thousands)

	July 1, 2006 UAAL ²	Amortized Payments Prior Year	Interest for Year	Liability (Gain)/Loss	Asset (Gain)/Loss	Change in Benefit Provisions or Assumption	July 1, 2007 UAAL ²
Public Employees' Retirement Fund	\$ 272,957	\$ (21,027)	\$ 18,265	\$ 124,812	\$ (347,160)	\$ 171,017	\$ 218,864
Judges' Retirement System	94,721	(7,297)	6,338	(5,995)	(15,519)	0	72,248
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	16,269	(1,253)	1,089	443	(4,251)	4,740	17,037
1977 Police Officers' and Firefighters' Pension and Disability Fund ¹	67,067	(9,006)	4,209	(72,837)	(200,420)	0	(210,987)
Prosecuting Attorneys' Retirement Fund	9,130	(703)	611	866	(1,667)	0	8,237
Legislators' Defined Benefit Plan	511	(51)	33	44	(403)	0	134

¹ Beginning date of January 1, 2006 rather than July 1, 2006, and ending date of January 1, 2007 rather than July 1, 2007.

² UAAL = Unfunded Actuarial Accrued Liability.

PUBLIC EMPLOYEES' RETIREMENT FUND

Solvency Test

(dollars in thousands)

		Actuarial Accrued Liabilities			
		(1)	(2)	(3)	(4)
	As of July 1	Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)	Total Actuarial Accrued Liabilities
Public Employees' Retirement Fund	2002 ¹	\$ 1,886,124	\$ 2,582,149	\$ 4,597,859	\$ 9,066,132
	2003 ¹	1,971,864	2,764,974	4,297,735	9,034,573
	2004 ¹	2,211,326	2,927,884	4,705,143	9,844,353
	2005 ¹	2,382,280	3,301,265	5,174,777	10,858,322
	2006 ¹	2,515,984	3,648,764	5,286,181	11,450,929 ³
	2007 ¹	2,707,176	4,007,389	5,725,233	12,439,798
Judges' Retirement System	2002	\$ 16,892	\$ 86,997	\$ 84,545	\$ 188,434
	2003 ¹	12,595	111,781	82,470	206,846
	2004	18,415	105,922	85,655	209,992
	2005	19,515	137,631	115,709	272,855
	2006 ^{1,2}	20,861	134,272	117,865	272,998 ³
	2007	21,276	143,645	119,074	283,995
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	2002	\$ 3,102	\$ 18,770	\$ 34,012	\$ 55,884
	2003 ¹	3,103	17,630	31,274	52,007 ³
	2004 ¹	3,613	17,788	28,608	50,009 ³
	2005 ¹	3,488	18,907	37,569	59,964
	2006 ^{1,2}	3,644	20,870	40,251	64,765
	2007 ²	3,527	24,606	46,318	74,451
1977 Police Officers' and Firefighters' Pension and Disability Fund (As of January 1 instead of July 1)	2002	\$ 273,787	\$ 447,042	\$ 1,087,925	\$ 1,808,754
	2003 ¹	307,929	457,766	1,001,150	1,766,845
	2004	344,775	452,755	1,077,988	1,875,518
	2005	362,908	436,606	1,264,657	2,064,171
	2006	403,643	503,498	1,507,912	2,415,053
	2007	455,476	546,628	1,647,421	2,649,525
Prosecuting Attorneys' Retirement Fund	2002	\$ 9,361	\$ 1,965	\$ 11,060	\$ 22,386
	2003 ¹	9,489	2,084	4,113	15,686
	2004	12,237	2,419	7,932	22,588
	2005	13,132	2,303	10,309	25,744
	2006 ¹	14,893	2,252	12,039	29,184
	2007	16,014	3,192	12,846	32,052
Legislators' Defined Benefit Plan	2002	\$ 0	\$ 2,326	\$ 3,177	\$ 5,503
	2003 ¹	0	2,278	2,670	4,948
	2004 ¹	0	2,128	2,728	4,856
	2005 ¹	0	2,121	2,878	4,999
	2006 ¹	0	2,270	2,962	5,232
	2007	0	2,432	2,737	5,169

¹Actuarial assumptions and/or methods revised.

²Improvement in benefit provisions.

³Prior year totals have been restated.

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Solvency Test (continued)

(dollars in thousands)

	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets			
		(1)	(2)	(3)	(4)
Public Employees' Retirement Fund	\$ 8,994,854	100%	100%	98.4%	99.2%
	9,293,952	100	100	100	102.9
	9,853,976	100	100	100	100.1
	10,471,937	100	100	92.5	96.4
	11,177,971	100	100	94.8	97.6
	12,220,934	100	100	96.2	98.2
Judges' Retirement System	\$ 121,155	100%	100%	20.4%	64.3%
	126,152	100	100	2.2	61.0
	135,798	100	100	13.4	64.7
	151,003	100	95.5	0.0	55.3
	178,276	100	100	19.6	65.3
	211,747	100	100	39.3	74.6
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	\$ 37,360	100%	100%	45.5%	66.9%
	37,286	100	100	52.9	71.7
	38,772	100	100	60.7	77.5
	41,663	100	100	51.3	69.5
	48,496	100	100	59.6	74.9
	57,414	100	100	63.2	77.1
1977 Police Officers' and Firefighters' Pension and Disability Fund	\$ 1,615,245	100%	100%	82.2%	89.3%
	1,660,445	100	100	89.4	94.0
	1,797,124	100	100	92.7	95.8
	1,976,905	100	100	93.1	95.8
	2,347,986	100	100	95.6	97.2
	2,860,512	100	100	100	108
Prosecuting Attorneys' Retirement Fund	\$ 11,957	100%	100%	5.7%	53.4%
	12,758	100	100	28.8	81.3
	14,655	100	99.9	0.0	64.9
	16,876	100	100	14.0	65.6
	20,053	100	100	24.2	68.7
	23,815	100	100	35.9	74.3
Legislators' Defined Benefit Plan	\$ 4,446	N/A	100%	66.7%	80.8%
	4,200	N/A	100	72.0	84.9
	4,206	N/A	100	76.2	86.6
	4,339	N/A	100	77.0	86.8
	4,721	N/A	100	82.8	90.2
	5,035	N/A	100	95.1	97.4

PUBLIC EMPLOYEES' RETIREMENT FUND

Schedules of Active Member Valuation Data

(dollars in thousands – except average)

	As of July 1	Active Members	Active Members		
			Annual Payroll	Average Pay	Percent Increase
Public Employees' Retirement Fund	2002	143,234	\$ 3,785,242	\$ 26,891	8.7%
	2003	143,082	3,952,230	28,226	5.0
	2004	142,913	4,198,942	29,489	4.5
	2005	141,428	4,318,450	30,535	3.5
	2006	140,563	4,322,180	30,749	4.3
	2007	138,863	4,385,676	31,583	2.7
Judges' Retirement System	2002	282	\$ 25,805	\$ 91,507	0.9%
	2003	278	25,400	91,367	(0.2)
	2004	275	25,693	93,431	2.3
	2005	282	32,231	114,293	22.3
	2006	274	34,065	124,323	8.8
	2007	258	29,712	115,163	(7.4)
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	2002	254	\$ 12,654	\$ 49,818	1.7%
	2003	254	11,944	47,024	(5.6)
	2004	251	10,209	40,675	(13.5)
	2005	262	13,223	50,469	24.1
	2006	310	14,892	48,039	(4.8)
	2007	344	17,715	51,497	7.2
1977 Police Officers' and Firefighters' Pension and Disability Fund	2002	10,179	\$ 396,246	\$ 38,928	3.9%
	2003	10,737	432,954	40,324	3.6
	2004	11,238	469,750	41,800	3.7
	2005	11,424	493,707	43,217	3.4
	2006	11,728	522,227	44,528	3.0
	2007	12,056	557,644	46,254	3.9
Prosecuting Attorneys' Retirement Fund	2002	205	\$ 14,438	\$ 70,427	9.0%
	2003	218	13,159	60,360	(14.3)
	2004	214	15,149	70,790	17.3
	2005	220	16,659	75,724	7.0
	2006	218	19,225	88,188	16.5
	2007	206	18,092	87,825	(0.4)
Legislators' Defined Benefit Plan ¹	2002	58	N/A	N/A	N/A
	2003	55	N/A	N/A	N/A
	2004	50	N/A	N/A	N/A
	2005	48	N/A	N/A	N/A
	2006	46	N/A	N/A	N/A
	2007	43	N/A	N/A	N/A

¹Benefits are not based on annual payroll.

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Schedules of Retirants and Beneficiaries

(dollars in thousands – except average)

	Year Begin July 1	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances ¹	Average Annual Allowances ¹
		No.	Annual Allowances ¹	No.	Annual Allowances ¹	No.	Annual Allowances ¹		
Public Employees’ Retirement Fund	2001	3,874	\$ 23,742	3,551	\$15,771	51,092	\$ 263,010	7.6%	\$ 5,163
	2002	3,978	31,424	2,114	9,216	52,956	289,667	10.1	5,470
	2003	3,975	34,244	2,577	12,511	54,354	325,711	12.4	5,992
	2004	4,499	35,845	1,732	8,358	57,121	354,285	8.8	6,202
	2005	3,403	29,572	2,241	14,440	58,283	377,611	6.6	6,479
	2006	4,633	42,653	2,584	15,229	60,332	412,745	9.3	6,841
Judges’ Retirement System	2001	11	\$ 424	18	\$ 838	235	\$ 8,031	(5.3)%	\$ 34,174
	2002	28	1,386	5	166	258	9,915	23.5	38,430
	2003	8	313	4	208	262	9,854	(0.6)	37,609
	2004	13	667	11	374	264	12,272	24.5	46,485
	2005	12	868	7	474	269	12,983	5.8	48,266
	2006	18	976	8	409	279	13,899	7.1	49,819
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers’ Retirement Plan	2001	7	\$ 154	1	\$ 16	128	\$ 1,619	10.1%	\$ 12,651
	2002	5	108	5	54	128	1,673	3.3	13,067
	2003	4	116	4	58	128	1,738	3.9	13,580
	2004	4	114	4	65	128	1,787	2.8	13,962
	2005	5	127	1	26	132	1,888	5.6	14,304
	2006	13	359	5	74	140	2,176	15.2	15,539
1977 Police Officers’ and Firefighters’ Pension and Disability Fund (As of January 1 instead of July 1)	2001	275	\$ 4,477	126	\$ 1,337	1,866	\$ 31,587	13.9%	\$ 16,928
	2002	90	1,558	50	767	1,906	34,088	7.9	17,885
	2003	65	1,320	65	1,215	1,906	34,258	0.5	17,974
	2004	14	255	22	387	1,898	33,706	(1.5)	17,759
	2005	257	5,493	28	554	2,127	38,648	14.7	18,170
	2006	172	3,860	34	592	2,265	41,973	8.6	18,531
Prosecuting Attorneys’ Retirement Fund	2001	0	\$ 0	1	\$ 17	18	\$ 216	(8.5)%	\$ 12,009
	2002	1	31	2	21	17	226	4.3	13,266
	2003	2	38	1	7	18	257	13.8	14,259
	2004	0	0	0	0	18	249	(3.0)	13,831
	2005	0	0	0	0	18	249	0.1	13,850
	2006	4	121	2	32	20	338	35.6	16,905
Legislators’ Defined Benefit Plan	2001	0	\$ 0	1	\$ 5	34	\$ 232	(2.2)%	\$ 6,822
	2002	9	31	4	14	39	246	5.9	6,301
	2003	0	0	0	0	39	246	0.0	6,303
	2004	0	0	0	0	39	244	(0.5)	6,268
	2005	2	12	2	9	39	260	6.2	6,658
	2006	6	31	0	0	45	283	9.1	6,298

¹For PERF only, this includes employee annuities.

